

M. John Kennedy
700 WEST SIXTH STREET
GILLETTE, WYOMING 82716
307-682-3107

May 8, 1997

Mr. David S. Guzy
Chief, Rules and Procedure Staff
Minerals Management Service
Royalty Management Program
Building 85
Denver Federal Center
Denver, CO 80225

Re: Notice of Proposed Rulemaking, 62 Fed. Reg 3742

Dear Mr. Guzy:

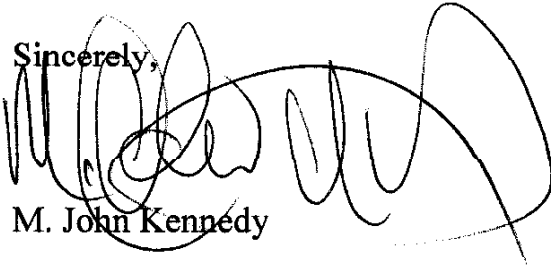
Minerals Management Service (MMS), in response to a possible underpayment of some federal royalties by certain oil producers, has proposed appointing itself the valuer of oil leaving the custody of all producers operating wells located on federal minerals. MMS proposes using NYMEX daily pricing to set a national price adjusted back to each individual well head.

The impact of this proposal is sure to greatly add to the costs of administration by the MMS and it has the obvious potential of damaging a struggling independent oil industry and associated service businesses in Wyoming.

The truth of the matter is, 99% of independent producers' market oil to third party transporters/purchasers for the highest price offered and share these proceeds as per their lease agreement. The very few bad apples in this bushel are easily spotted using current audit and staff personnel. This range of pricing can be used as a guide for values reported by those producers having downstream subsidiaries involved in transportation, refining, and the retail sector. Tracking should easily block any attempt by integrated companies to transfer value to related downstream entities. An alternative giving MMS the least margin for underpayment is for MMS to take its royalty in-kind. The federal government is the largest oil and gas producer in Wyoming. Marketing federal production in whole or in part would give MMS tremendous pricing influence. In discussion with other producers, I find a consensus allowing MMS production to be taken in-kind and the responsibility for attaining

the highest possible price assigned to the producer for his oil and to the federal agency for the government's share of production is most desirable. The benefit for Kennedy Oil Company and other independents is to relieve us of any responsibility for marketing federal royalty oil and rebating monies due for this production. This action would result in permanently lifting the veil of distrust and implication thrown upon producers on federal lands by MMS.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. John Kennedy', written over a horizontal line.

M. John Kennedy

cc: U.S. Senator Craig Thomas
U.S. Senator Mike Enzi
U.S. Rep. Barbara Cubin
Governor Jim Geringer
State Land Director, Jim Magagna
State of Wyoming Federal Lands Policy Director, Paul Kruse
State of Wyoming State Land Office, Harold Kemp

Addendum: Within the last thirty days the United States Supreme Court decided not to review decisions of the U.S. Court of Appeals and the Fifth Circuit of the U.S. Tax Court in the so-called "Aramco Advantage" case as had been requested by the Internal Revenue Service. As a result of a directive from the Saudi government, Texaco had been limited in the price it was able to charge for oil purchased from Saudi Arabia. The Internal Revenue Service claimed the company should pay taxes based on a higher crude oil price than Texaco actually received for the oil. By rejecting the IRS's request for review, the court precluded further challenges to the Fifth Circuit and Tax Court decisions thus upholding Texaco's position.